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ABSTRACT

This paper addresses the current context and general trends in community college financing. Financing of community colleges is becoming increasingly based on contracted government and private programs, as operating funds from state and local tax coffers decrease. More and more, students are being asked to pick up a larger portion of the tab. Previously, student borrowing of federal loans for community colleges was relatively small. By 1996, community college students borrowed more than $1.5 billion in federal loans. Some of the factors that influence institutional revenues and student financing are: shifting government policies and priorities; growing demands from consumers; and an evolving relationship with employers who rely on community colleges to supply them with skilled workers. As four-year institutions continue to limit remedial enrollments, community colleges will have an even greater burden for providing remedial education. The costs of providing remedial education are not fully understood. However, community colleges which receive the least state and federal funds are expected to educate a much larger number of students in need of remedial education. This paper provides useful statistics in the form of tables and figures, as well as a detailed discussion of federal funding programs and recommendations for states and community colleges. (Contains 24 references.) (AF)

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NEW EXPEDITIONS
Charting the Second Century of Community Colleges
a W. K. Kellogg Foundation Initiative

FINANCE

Issues Paper No. 5

Community College Financing

STRATEGIES AND CHALLENGES

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ABSTRACT

This paper describes the current context and general trends of community college financing. It discusses many of the important possibilities and challenges that will confront the colleges and their students in the coming decade—circumstances that have been shaped by the last 20 years and particularly driven by policy and programmatic shifts of the 1990s. The paper concludes with a series of strategic recommendations for policymakers and community college leaders regarding the future of community college financing.

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INTRODUCTION

The first decade of the 21st century offers many opportunities and challenges for community colleges. This is especially true with respect to the financing of community college education from the vantage point of the institutions and the students they serve. The previous two decades have seen a broad array of changes in the higher education environment, many of which have significantly affected community colleges. As a new decade approaches, these changes will have an impact on who pays for a community college education, how it is paid for, and what purpose it serves.

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REVENUE TRENDS

Trends in total institutional revenues for community colleges indicate significant shifts toward external revenue sources and away from core state and local funding for basic operations. As table 1 indicates, since 1980, the fastest growing revenue categories for community colleges have been government grants and contracts—federal, state, and local programs for training and research—and private gifts from corporations and individuals. In fact, as a share of total revenues, these four categories grew from 2 percent in 1980 to 20 percent in

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1996, a tenfold increase in less than two decades. At the same time, state and local appropriations for basic operations fell from 70 percent of total revenues in 1980 to 50 percent in 1996 (U.S. Department of Education 1980 and 1996).[1]

Furthermore, revenue from tuition and fees also has increased from 16 percent of total revenues in 1980 to 21 percent in 1996. This is related primarily to the fact that average prices have risen somewhat faster than the total revenues of institutions. As figure 1 indicates, between 1980 and 1996, the average tuition and fees at a public two-year college rose from $355 to $1,239, a 249 percent increase (U.S. Department of Education 1997c). This is more than 30 percentage points higher than the 218 percent increase in total revenues over that time period.

These revenue trends suggest that the process of financing community colleges has migrated toward a more private, workforce-oriented education model. As the focus of community colleges has broadened to include more focused worker training, resources to pay for this training have increased substantially. The significant shift in revenue sources toward contracted government and private programs has been accompanied by a parallel decline in operating funds from state and local tax coffers. At the same time, students have been asked to pick up an increasing proportion of the tab.

[1]Data on expenditures and revenues for 1980 and 1996 in this paper are derived from the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS). 1980 data were provided by the U.S. Department of Education. 1996 numbers were calculated by The Institute for Higher Education Policy, based on preliminary IPEDS 1996 finance survey data.

TABLE 1

Community College Revenues: 1979–80 to 1995–96

Category	1979–80 Total $ by Category	1995–96 Total $ by Category	1979–80 to 1995–96 % Change in Current Dollars	1979–80 to 1995–96 % Change in Constant Dollars
Tuition & Fees	$1,025,890,749	$ 4,331,003,988	322%	117%
Federal Appropriations	97,810,005	59,457,560	-39%	-69%
State Appropriations	3,481,819,274	7,247,137,210	108%	7%
Local Appropriations	1,139,862,678	3,262,613,114	186%	47%
Federal Grants & Contracts	51,805,882	2,606,066,721	4,930%	2,486%
State Grants & Contracts	34,926,320	1,155,806,958	3 209%	1,601%
Local Grants & Contracts	24,301,653	162,990,085	571%	245%
Private Gifts	30,052,071	200,874,059	568%	244%
Endowment	5,486,105	15,831,053	189%	48%
Sales & Services	32,763,141	138,387,467	322%	117%
Auxiliary Services	432,094,296	1,117,859,526	159%	33%
Hospitals	0	0	0%	0%
Other Sources	218,682,920	612,527,644	180%	44%
Total	$6,575,495,094	$20,910,555,385	218%	63%

Category	1979–80 $ per Student	1995–96 $ per Student	1979–80 to 1995–96 % Change in Current Dollars	1979–80 to 1995–96 % Change in Constant Dollars
Tuition & Fees	$ 413	$1,401	239%	74%
Federal Appropriations	39	19	-52%	-75%
State Appropriations	1,402	2,344	67%	-14%
Local Appropriations	459	1,055	130%	18%
Federal Grants & Contracts	21	843	3,942%	1,978%
State Grants & Contracts	14	374	2,560%	1,268%
Local Grants & Contracts	10	53	442%	179%
Private Gifts	12	65	437%	176%
Endowment	2	5	126%	16%
Sales & Services	13	45	241%	75%
Auxiliary Services	174	362	108%	7%
Hospitals	0	0	0%	0%
Other Sources	88	198	125%	16%
Total	$2,647	$6,764	156%	31%

Source: U.S. Department of Education 1980 and 1996 (preliminary)

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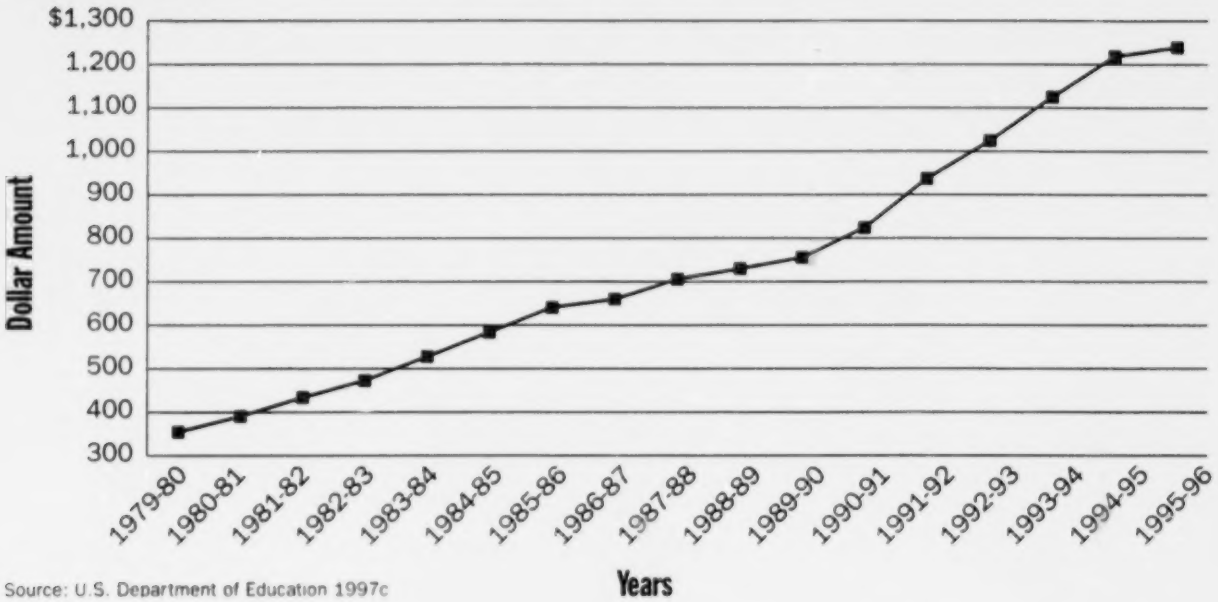
FIGURE 1 **Tuition and Fees at Public Two-Year Institutions: 1979 to 1996**



Source: U.S. Department of Education 1997c

Expenditure Trends

Trends in total institutional expenditures portray a more complex interaction of factors. As table 2 shows, the fastest growing expenditure categories have been scholarships and fellowships—an apparent attempt on the part of the colleges to mitigate the effects of price increases on low income students—along with student services and institutional support. These latter two categories

TABLE 2

Community College Expenditures: 1979–80 to 1995–96

Category	1979–80 Total $ by Category	1995–96 Total $ by Category	1979–80 to 1995–96 % Change in Current Dollars	1979–80 to 1995–96 % Change in Constant Dollars
Instruction	$3,390,696,855	$ 8,468,268,295	150%	28%
Research	27,324,297	19,828,824	-27%	-63%
Public Service	149,041,620	414,452,975	178%	43%
Academic Support	551,453,994	1,486,735,020	170%	39%
Student Services	583,746,345	1,867,484,555	220%	64%
Institutional Support	946,414,287	2,711,441,718	187%	47%
Operation & Maint. Plant	789,920,586	1,809,700,819	129%	18%
Scholarships/Fellowships	156,493,701	2,312,065,664	1,377%	660%
Total	$6,595,091,685	$19,089,977,870	189%	49%

Category	1979–80 $ per Student	1995–96 $ per Student	1979–80 to 1995–96 % Change in Current Dollars	1979–80 to 1995–96 % Change in Constant Dollars
Instruction	$1,365	$2,739	101%	3%
Research	11	6	-45%	-72%
Public Service	60	134	123%	15%
Academic Support	222	481	117%	11%
Student Services	235	604	157%	32%
Institutional Support	381	877	130%	18%
Operation & Maint. Plant	318	585	84%	-5%
Scholarships/Fellowships	63	748	1,087%	510%
Total	$2,655	$6,174	133%	20%

Source: U.S. Department of Education 1980 and 1996 (preliminary)

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reflect the higher costs associated with meeting students' growing needs for career guidance, counseling, and other support, together with the increasing costs of marketing and general administrative expenses.

On the other hand, expenditures for instruction and academic support have increased at a somewhat slower pace. This suggests that colleges may have been able to achieve greater economies of scale in the instruction category by using lower-cost labor, such as part-time and adjunct faculty. The more modest increase in spending on academic support—which includes libraries and academic computing—may have been aided by the advent of personal computers and the Internet, both of which allow more cost-effective access to information than traditional libraries and mainframe academic computing environments.

Student Financing Trends

Students at community colleges face a high degree of vulnerability in their options to pay for college. Even though their tuitions are lower than at four-year institutions, many community college students rely on student-based assistance to help them gain access to, and succeed in, college. The support that community college students receive from the federal government is particularly important in this regard.

In 1996–97, 35 percent of all Pell Grant recipients attended two-year public institutions. The average Pell Grant award was $1,470 (U.S. Department of Education 1998). In the current academic year (1998–99), an estimated 1.4 million community college students will receive approximately $2.6 billion in Pell Grants (U.S. Department of Education 1997a).

Federal student loans also have grown in prominence as a major source of support for community college students. Whereas historically, community college students borrowed modestly, if at all, total borrowing has increased substantially in the 1990s. In fiscal year 1996, community college students borrowed more than $1.5 billion through federal student loan programs, an increase of 135 percent since 1990 (U.S. Department of Education 1997b).

Federal programs also contribute to the support of students at community colleges by means of contracts for worker training through the programs associated with the recently passed Workforce Investment Act, which includes job training (such as what has been provided under the phased-out Job Training Partnership Act, or JTPA), adult education, and vocational rehabilitation. In fact, total government spending on these programs has increased substantially in the last two decades (U.S. Department of Labor 1997; U.S. Department of Education 1997f). Studies have found that more than 80 percent of community colleges participate in federal vocational education programs, and at least 50 percent have received JTPA funds (Lynch 1991).

Possibilities and Challenges for the Coming Decade

These basic trends in institutional revenues and expenditures and student financing have been influenced by a variety of factors external and internal to community colleges. These factors reflect the changing educational environment within which community colleges operate, shifting government policies and priorities, growing demands from consumers, and an evolving relationship with employers who rely on community colleges to provide them with skilled workers.

Several important factors will impact the possibilities and challenges for financing community colleges in the next decade, including:

Surging K–12 Enrollments

We are now at the beginning of a new upward trajectory in K–12 enrollments that could have a profound effect on community college enrollments and financing. Data from the U.S. Department of Education indicate that enrollment of students in grades 9 through 12 will rise from 14.4 million in 1997 to 16.4 million in 2007, an increase of more than 10 percent in a decade, and an increase of more than 30 percent since 1990 (U.S. Department of Education 1997d).

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The impact of these changes is already being felt. The U.S. Department of Labor recently reported that a record 67 percent of 1997 high school graduates enrolled in a college or university that fall (U.S. Department of Labor 1998). Given that 45 percent of all U.S. undergraduates are enrolled in a community college (AACC 1998), these institutions will experience the lion's share of the impact of these surging enrollments.

Changing Remedial Education Policies and Practices

Remedial or developmental education has become one of the "hot button" issues in higher education. Concerns about who should provide remedial education—and who should pay for it—have been prominent in policy discussions in several states. Since almost one out of every two community college students takes at least one remedial course, the impact of these proposed changes will be most prominently felt by this group of students.

A recent report from the Massachusetts Community Colleges found that about 29 percent of the total enrollment at these institutions is in developmental curricula (Commonwealth of Massachusetts 1998). The Massachusetts Board of Higher Education is now implementing a series of policies that limit the total remedial enrollments at four-year institutions. As a result, the community colleges expect that their burden for providing remedial education will most likely rise. In anticipation of this increasing demand, the community colleges have developed a model for effective developmental education that includes improvements in assessment and placement, curriculum design and delivery, support services, and organizational structures.

One of the most important issues in the remedial education debate concerns the costs that are associated with providing remedial services. While Pell Grants are generally seen as a critical component of efforts to support remedial education—according to a 1995 report by the Institute for Higher Education Policy, commissioned by the Association of Community College Trustees (ACCT), almost one-half of community college Pell Grant recipients have taken at least one remedial course—accurate systems for tracking remedial versus regular academic program costs are not widely available (The Institute for Higher Education Policy 1995). Further, effective measures for determining the costs of not providing remedial support are not well understood. This absence of information has hampered efforts to conduct constructive, rational public policy discussions about remedial education.

Expanding Tax-Based Support for Student Financing

The last two years have witnessed a mushrooming of tax-based alternatives to assist students in paying college costs. These include the restoration of deductibility for student loan interest, the establishment of education IRAs, and the creation of tax credits linked to tuition and required fees. Tax credits are the most prominent new weapon in the tax-based student financing arsenal, because of their total federal budgetary cost—$40 billion over six years, according to the Congressional Budget Office—and because of their direct link to average community college tuitions, which are approximately $1,500 annually (The Institute for Higher Education Policy 1997).

Three frequent concerns have been expressed about the tax credits:

- Given their explicit links to community college tuitions, there is concern that the tax credits could serve as an incentive to raise tuition in those states that are currently below $1,500. Several states are now engaged in these policy discussions.
- The impact that the tax credits will have on college access is questionable, since the benefit is provided several months after the student has already enrolled in college. Some have suggested that the tax credit merely serves as a reward for those who already would have enrolled in college, although it is accurate to note that affordability (as compared with accessibility) would be enhanced for these students.
- The political dynamic of such a prominent new tax-based, student-financing alterna-

tive is unclear. There is some concern that political momentum for need-based grant support may erode as the tax credits grow as a proportion of the total student financing equation. Although the budgetary costs of grants and tax credits are identical, the political costs are not: the latter is simply a reduction in total government revenues, whereas the former requires legislators to vote for increased spending.

Aging of the Community College Client Base

Community colleges now educate a population that is primarily nontraditional in nature. One of the most evident indicators of this change is the fact that almost one-half of currently enrolled students are over the age of 24. In fact, almost one out of every six community college students is over the age of 40. According to a 1996 study, this over-40 group represents the fastest growing age cohort in American higher education in the last decade (The Institute for Higher Education Policy 1996).

Because an aging student population could result in increasing costs—on-campus childcare, night and weekend facility access—it also could lead to higher overall revenues for institutions. Because older students generally have higher incomes and lower financial need, the resources required to assist them in paying for college could actually be less than for other students.

Growing Limited English Proficient Student Populations

The pipeline of students eligible to enroll in college is gaining in terms of the numbers who are limited in English proficiency (LEP). Research indicates that such proficiency has a major impact on the school-to-college transition. Data from the 1990 Census show that 14- to 19-year-olds who live in linguistically isolated households—that is, households where the language spoken at home was other than English and where no adult spoke English well—31 percent were not enrolled in school. By comparison, only 11 percent of these 14- to 19-year-olds who lived in homes that were not linguistically isolated were not enrolled. Moreover, in 1995, the dropout rate of those who had difficulty speaking English was substantially higher than for those who did not have difficulty: 44 percent compared with 12 percent (U.S. Department of Education 1997e).

These findings portend two significant challenges for community colleges. One is that the number of students requiring English as a second language (ESL) training will increase, adding to the cost of total support for remedial services. Second, LEP populations are going to demand increasing support from institutions that will add to the total costs.

Evolving Workforce Needs and Employer Relationships

The postindustrial workforce, with its emphasis on adaptable skills and technology awareness, requires education and training that can be delivered efficiently, effectively, and over the course of several stages of an individual's life. As the Hudson Institute's *Workforce 2020* report points out, "Because economic growth will depend on increased worker productivity, the educational attainments of today's students raise an important concern for tomorrow's workforce" (Judy and D'Amico 1997, 119). Community colleges have been at the forefront of providing education for this new knowledge society, which has put a premium on what Robert Reich has called the Symbolic Analysts—workers who "solve, identify, and broker problems by manipulating symbols" (words, computer code, etc.)—over the workers who perform manufacturing or production tasks (Reich 1991, 178).

The rapid evolution of the workforce means that employers are increasingly turning to community colleges as essential centers of worker training. In part, this is why the total resources from these private sources have surged in the last two decades, and why connections between businesses and community colleges have flourished in recent years. The key question for community colleges is how to strike a balance between these direct worker training efforts and general education programs that provide students with broader skills, such as critical thinking.

Emerging Technology-Based Teaching and Learning Strategies

According to the American Association of Community Colleges (AACC), 95 percent of all community colleges have Internet connectability (AACC 1998). Many community colleges also have invested in technology-mediated learning tools—interactive learning systems, satellite technology, and so forth—to enhance the teaching-learning process. As this increasing investment in technology has occurred, costs for hardware, high-tech backbones on campuses, and telecommunications connections have skyrocketed.

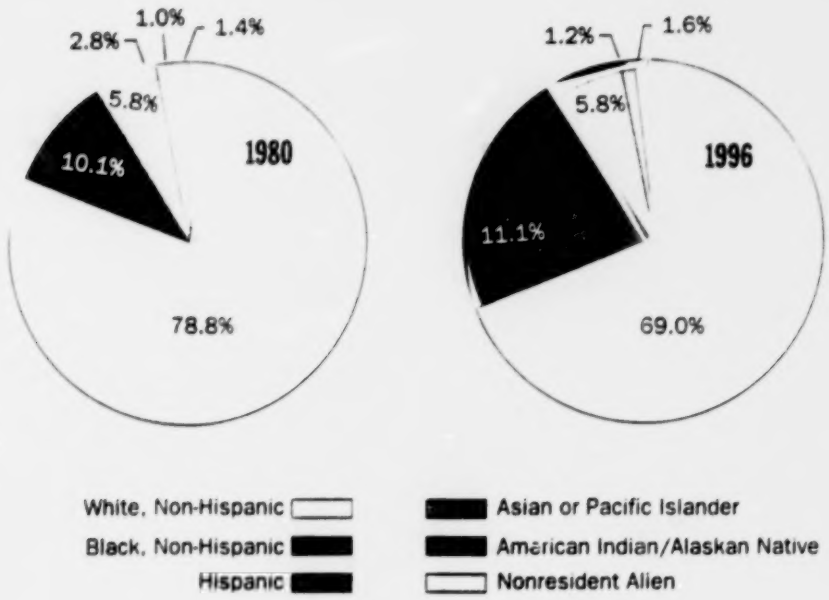
Compounding this situation is the fact that distance learning and other alternative delivery mechanisms challenge the current systems of student financing. For example, determining the prices to charge students in partial or wholly technology-based programs is complex. These students do not use some institutional resources—on-campus services, libraries, and the buildings that make up a typical college—in the same way that other students might. At the same time, these students have unique costs such as computers, video technology, and other requirements that are not entirely analogous to the regular student. Further, determining seat time and other measures of academic progress is much more difficult when students are engaged in these more self-paced, technology-mediated programs.

Increasing Underprepared Minority Populations

Community colleges enroll significantly higher proportions of minority populations than other higher education sectors. These institutions enroll 42 percent of all African American students in U.S. higher education.

FIGURE 2

Distribution of Community College Enrollments by Race: 1980 and 1996



Source: U.S. Department of Education 1997c

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55 percent of all Hispanic students, and 50 percent of all Native American students (U.S. Department of Education 1997c). More than half of all Hispanic-Serving Institutions (HSIs) of higher education—institutions that serve a Hispanic student population greater than 25 percent—are two-year colleges, as are virtually all of the nation's 30 tribal colleges (Merisotis and O'Brien 1998).

The increasing proportions of underprepared minority populations enrolling in community colleges is particularly striking. For instance, black high school graduates are less likely than white graduates to take advanced science and mathematics courses or to study a foreign language while in high school (U.S. Department of Education 1995). Meanwhile, minorities' share of total enrollment in community colleges has increased substantially from 21 percent of the total enrolled population in 1980 to 31 percent in 1996 (figure 2). Hispanic students accounted for the largest increase in that time period, nearly doubling their enrollments (U.S. Department of Education 1997c).

Developing Opportunities for Students with Disabilities

The Americans with Disabilities Act, the Individuals with Disabilities Education Act (IDEA), and other changes in federal and state laws have enhanced the educational opportunities for individuals with disabilities. According to 1993 data collected by AACC, nearly two-thirds of all public higher education students with disabilities were enrolled in community colleges. At that time, 6 percent of all community college students reported having a disability (Barnett 1993).

Students with disabilities have the potential to add to the total costs of institutions because of increasing infrastructure needs, special equipment, and added services such as note taking, alternative exams, and registration assistance. But these students also may enhance overall enrollments as a potential new market for community colleges. Students with disabilities also add to the overall diversity of a campus, a critical component of efforts to recruit and retain students.

Declining Support for Welfare Participants Seeking Postsecondary Education

The 1996 welfare reform legislation's limitations on the amount of postsecondary education that can count toward the law's work requirements has had a large impact on community colleges. The law says that states may consider up to 12 months of job-related education and training as work. This has had a deleterious effect on community college enrollments; for example, the City University of New York found that the number of welfare recipients it enrolled declined from about 27,000 in 1994 to 17,000 in 1997 (Schmidt 1998).

On the other hand, in response to the need to help welfare recipients make the transition to welfare-to-work training programs, several states have begun contracting with community colleges to train welfare recipients, usually in short-term (two- to six-month) programs. Almost one-half of all community colleges support welfare-to-work programs (AACC 1998).

Strategic Recommendations

Our analysis of revenue, expenditure, and student financing trends, and the review of possibilities and challenges for the coming decade, suggests that several strategic steps could be taken to advance community college financing in the coming decade. Below are some suggestions for how to address these issues as the new millennium approaches.

Diversity Is Normalcy

In the next two decades, most of the trends we have noted show no signs of reversing their direction or losing their strength.

- In the period 1994 to 2005, 51 percent of the new entrants to the labor force will be minorities (Judy and D'Amico 1997). Furthermore, minorities are projected to be the majority of the U.S. population by the middle of the next century.
- Unless there are dramatic changes in U.S. immigration policy or rapid acceleration in economic development in the rest of

the world, particularly Latin America, the influx of non-English speakers will continue.

- Those with disabilities will increasingly become participants in the mainstream of American society, including its educational systems and workforce.
- Americans are living longer and staying in the workforce longer. They will need training tailored to their needs as they adapt to the changing society and economy, and they will demand more services and activities to enhance their retirement years.
- The pace of economic change (driven by global competition and instantaneous worldwide flows of information, data, and analysis) and the premium on high and up-to-date skills will remain. Business and industry will demand ever more frequent and sophisticated training and retraining.
- The strict time limits on eligibility for welfare is likely to increase the demand for training those currently receiving welfare benefits. This trend will indeed accelerate if the current stringent limits on the amount of education that can be substituted for work are loosened.
- Many students will continue to need remedial instruction before they can effectively benefit from education and training at the postsecondary education level. They may be those who have limited English proficiency, who have been away from schooling for a long period, who have dropped out and are on welfare, or who have received poor quality elementary and secondary preparation.

Given the current structure of American postsecondary education, it is reasonable to believe that community colleges will continue to serve as the port of entry to postsecondary education for these diverse populations.

The Academic Gold Standard

It is difficult to do many things well. It is even more difficult to do many new things well. And it is still more difficult to do many new and rapidly changing things well. Community colleges have faced, and will continue to face, multiple and rapidly changing demands. In meeting these demands, community colleges must pay particular attention to maintaining the educational quality of their programs.

RECOMMENDATION

The leaders of community colleges should plan for a future in which the many dimensions of diversity in clients and missions continue to dominate the strategic environment. This suggests that a variety of efforts, from the education of individuals with disabilities to the support services required to serve an aging student client base, should be incorporated into the core budgeting and funding of institutions. States and localities should work in partnership with the Federal government to ensure that diversity—indeed rapidly changing diversity—is not an aberration but rather will be the normal state of the future.

There are at least two dimensions to this problem. Community colleges have become expert at delivering courses and programs that serve the needs of their diverse constituents with high-quality courses and programs delivered in a functional and cost-effective manner. Can they continue to do so as the demands multiply?

As the demands increase and change ever more rapidly, these institutions increasingly become educational cafeterias or general stores. They try to supply students with much of what they need as quickly and efficiently as possible. Is there something missing if these are truly to be considered educational institutions? Are there components of education beyond skills and knowledge acquired and credentials earned? We believe that all education worthy of the name includes a component of reflection, curiosity indulged, and human interactions that are not part of teambuilding exercises. Given that many community college students are working adults who attend part time—and who, in many cases, have substantial family responsibilities and

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RECOMMENDATION

The governing boards, presidents, and the accreditors of community colleges must devise standards of educational quality that take into account the diverse and evolving missions of the institutions. Assistance to community colleges to meet those standards should include incentive or performance-based funding that is linked to the core mission and goals of the institution. The focus of this incentive funding should be to reward the achievement of institutions meeting their goals and to provide technical assistance and expertise to those who fall short.

are primarily motivated by improving their economic circumstances—it is clear that such a component of community college programs will be different than it is in undergraduate courses at private liberal arts colleges, for example. However, it should not be completely absent.

Cruising Down the Information Superhighway, or Locked in the Electronic Ghetto?

As noted above, community colleges have been pioneers in the use of technology-mediated learning tools. Distance learning through technology permits adult students who are working and who have family responsibilities to shift the time and location of some or all the components of a course to times and places more convenient to their schedules. Electronic technology creates the possibility of flexibility and responsiveness in programming as new courses and programs are constructed using both existing modules with newly developed elements.

Courses and programs that are already established permit economies—for example, through larger course sizes, increased faculty course loads, or hiring lower wage discussants/facilitators to accompany the video lectures of higher-salaried, more senior faculty. On the other hand, courses delivered through technology can incur large developmental costs as well as require the installation and maintenance of expensive electronic equipment and infrastructure. There are complex issues of appropriate tuition and fees for courses delivered electronically and of how to measure a student's level of attendance (full-time, half-time). These issues are related directly to the eligibility of students for federal student assistance programs and the amount of aid for which they qualify.

Technology-mediated learning tools can enhance educational quality. For example, students can be provided access electronically to rich and exciting materials and can pace their instruction to maximize their learning. They can have interactions with faculty and other students around the globe. On the other hand, educational quality can also be compromised and debased. Courses can consist of outdated materials and reruns of lectures that are no longer relevant. Those who present the greatest educational challenges, such as the limited English proficient, students with disabilities, and those on welfare, can be shunted into off-campus electronic ghettoes where they get a stripped-down or dumbed-down program, or a program that is fun and about which students rave but from which they learn little. This is a particular risk when the direct educational expenses of such students are being paid for with public funds rather than out of the pockets of consumers likely to be more demanding, sophisticated, and attentive to the quality of the education they are receiving.

In short, technology-mediated learning tools do not automatically guarantee educational quality. They also raise complex and novel issues of institutional budgeting, management, and accountability for public funds.

Unlocking the Treasury

A decade ago, the American economy was seen by many as moribund and unable to compete with Germany and the European Community, or Japan and the Asian "Tigers." Now, the American economy is the envy of the world and a model of economic dynamism. By providing many in the American workforce with high skills and greater knowledge and flexibility, commu-

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RECOMMENDATION

The governing boards, presidents, and the accreditors of community colleges should devote a high priority to the development of standards of educational quality for courses and programs that use technology-mediated learning tools. We encourage these leaders to concentrate on the issues of institutional budgeting, management, and accountability raised by the use of these tools. Specific attention should be devoted to determining the appropriate tuition to charge students in these technology-mediated programs, and to the consequences that pricing policies may have on access to a community college education.

nity colleges have played a key role in the turnaround of the U.S. economy and in sustaining the nation's economic strength.

At the same time, community colleges have been an important rung on the ladder of opportunity for many who do not yet fully enjoy the bounty of America such as minorities, the disabled, the LEP, those lacking adequate preparation in elementary and secondary education, and the geographically isolated. Because community colleges serve these and other public interests, they, like other educational institutions, receive public funding. However, as noted earlier, the share of community college revenues from state and local government appropriations has shrunk from 70 percent of total revenues in 1980 to 50 percent in 1996. The anomaly is that public funding for basic support of community colleges has not declined at a time when the contribution of community colleges to the public interest has declined. In fact, the opposite is true; public funding for basic support of community colleges has declined as the contribution of community colleges to the public interest appears to have increased.

One significant determinant of public policy is the resource environment. The various levels of government in the United States can consider doing things that are unimaginable in, for example, Bangladesh. Despite the fact that the United States is the richest country in the world and the richest country in the history of the world, its resources are finite; it cannot do everything.

Nevertheless, now is a period of relatively high affluence in the United States. Inflation is low, unemployment is low, interest rates are low, and there has been nearly a decade of uninterrupted economic growth. The annual federal deficit has been eliminated and major policy arguments in Washington now focus on what to do with the annual surpluses such as save Social Security, pay down the cumulative national debt, or cut taxes. Similarly, the coffers of state governments are full, with a few exceptions (Hawaii). State policymakers are debating tax cuts, pumping up rainy day funds, and considering new initiatives. The last time policymaking in the United States was in a comparable flush resource environment, we embarked on a War on Poverty and set out to create a Great Society, despite being in the midst of a Cold War that demanded a greater share of national resources for defense than is currently the case.

Therefore, community colleges have earned a greater share of the public's resources by their increased contribution to the national interest. There are also more public resources available. Yet, public funding, particularly from state and local governments, has declined by nearly 30 percent in the last decade and a half, and there are no clear signs of the reversal of that trend. Something is wrong with this picture.

RECOMMENDATION

The community college leaders and all who are concerned about the future economic and social well-being of the United States should advocate for greater federal, state, and local government support for community colleges. For the American economic engine to continue its high level of productivity, and in order to become a fairer and more just society, an increased public investment in community colleges as well as in education generally is essential.

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Which Level of Government Should Do What?

Governments should support education, including community colleges, because education develops the human capital of a society, thereby spurring economic productivity and growth, social stability, and other public and private benefits (The Institute for Higher Education Policy 1998). But, in the American system, which level of government should support community colleges? States have the primary responsibility for education, so it is basically a state responsibility to ensure that there is a community college within commuting distance of all citizens (or alternatively, that quality distance education opportunities are available to those who cannot commute to a community college). The states should provide sufficient core support for community colleges to enable them to carry out their basic missions. Where local governments share in providing core support for community colleges, the states should ensure that the core resources available per full-time-equivalent (FTE) are generally the same at all community colleges throughout the state. This could be accomplished through state policies that equalize the resources available to community colleges in local jurisdictions with the least fiscal capacity. States should also seek to maintain reasonable tuition levels.

The primary federal role should be to enable students to gain access to community colleges through broadly available need-based aid programs, particularly Pell Grants. In addition, the federal government should continue to provide aid to selected categories of students, such as veterans, Americorps volunteers, those with disabilities, and the unemployed, to expand their educational opportunities and promote their access to the American mainstream.

In addition, the federal, state, and local governments provide substantial revenue to community colleges through grants and contracts for the development of programs and for the education and training of various populations. Funds available for projects under JTPA or the Perkins Vocational Education Act are examples of this type of funding from the federal level. As noted above, the funds provided by such grants and contracts have been the most rapidly growing source of community college revenues. The availability of these grants and contracts from the different levels of government has, in effect, created a marketplace in which community colleges compete with others for support. Community colleges have been increasingly successful in this competition in recent years and participation in this marketplace has shaped the development of many community colleges.

RECOMMENDATION

We recommend that states not view the success of community colleges in competing for grants and contracts as an opportunity to reduce the level of core support. Basic access to quality community college services for all citizens in each state should not be contingent on the community colleges' success in the marketplace for grants and contracts. Rather, the core support to provide this basic access should be seen as a continuing state responsibility.

Federal Support for Community College Constituents under Threat

As noted above, the Pell Grant program provides substantial sums to large numbers of students from low-income families, enabling them to have access to community colleges. There are two threats to the continued growth in Pell Grant funding. First, Pell Grants are a domestic discretionary pro-

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RECOMMENDATION

The community college leaders and all who are concerned about educational opportunities should support expanded Pell Grant funding aggressively. This could be accomplished by giving Pell Grants the same entitlement status that tax credits and student loans currently enjoy. Policy leaders also should be particularly attentive to the unintended negative consequences on student access and overall aid funding that could result from the implementation of the new federal higher education tax provisions.

gram, part of the one-sixth of the federal budget that must be appropriated annually for the whole range of federal domestic activities including the national parks, the Federal Bureau of Investigation, the National Institutes of Health and National Science Foundation research, the Federal Aviation Administration, and many others. Current budget policies place stringent annual limits on expenditures for domestic discretionary programs. These limits permit little overall growth in this category of programs. Therefore, competition among many meritorious programs is fierce. Pell Grants are not shielded from this competition and, therefore, their future funding is at risk.

Second, while the new Hope Scholarship Tax Credit and related tax benefits are likely to do very little to expand access to community colleges for those who would not otherwise attend, they are new competitors for scarce federal resources devoted to postsecondary education. In this competition, new tax benefits have two important advantages. They serve primarily a middle-income constituency, which is generally more politically potent than the low-income constituency of Pell Grants. And, as tax expenditures, the resources for these new tax benefits are, in effect, entitlement spending that does not need to be appropriated annually like Pell Grant funding.

The new tax benefits also threaten to become a significant drain on community college resources. These new tax provisions will be administered by the Treasury Department, which sees its basic mission as collecting revenue, not providing benefits to education. Therefore, the implementation of these provisions could well impose significant regulatory and data gathering burdens. There is no reason to assume, for example, that the Treasury Department will adopt the basic regulatory definitions used by the Department of Education relating to what is an academic year or a credit hour. While providing community colleges little in the way of new revenue, these new tax provisions could become a substantial unfunded mandate. They would hit community colleges particularly hard since these institutions often do not have the most developed administrative infrastructures, and yet have the most diverse and transient student bodies.

In addition, two specific legislative provisions of the Pell Grant program enable students to use their Pell Grants to pay for courses that teach English language skills and that provide remediation to make up for deficits in a student's previous preparation. Since students needing remediation and instruction in English are large constituencies of community colleges and are likely to remain so in the future, any changes to these provisions of the Pell Grant program would have very large adverse effects on access to community colleges for these students. It is worth recalling that two relatively minor legislative changes in the recent past—one denying Pell Grants to prisoners, and the other severely limiting access to education for those receiving public assistance—had severe and disproportionate negative effects on the access of these populations to community colleges.

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